

Message Text

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20

ACTION NEA-10

INFO OCT-01 AF-04 ARA-06 EUR-08 EA-06 ISO-00 FEA-01 AEC-05

AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00 EB-04

FPC-01 H-01 INR-05 INT-05 L-02 NSAE-00 NSC-05 OMB-01

PM-03 RSC-01 SAM-01 OES-03 SP-02 SS-15 STR-01 TRSE-00

FRB-01 /099 W

----- 087200

R 230649Z OCT 74

FM AMEMBASSY ABU DHABI

TO SECSTATE WASHDC 2164

INFO AMEMBASSY ALGIERS

AMEMBASSY BEIRUT

AMEMBASSY BRUSSELS

AMEMBASSY CARACAS

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LONDON

USMISSION OECD PARIS

AMEMBASSY QUITO

O

AMEMBASSY ROME

AMEMBASSY TEHRAN

AMEMBASSY TOKYO

AMEMBASSY TRIPOLI

AMEMBASSY VIENNA

AMEMBASSY LAGOS

AMEMBASSY JAKARTA

AMEMBASSY BRAZILIA

AMEMBASSY MUSCAT

C O N F I D E N T I A L ABU DHABI 1447

KUWAIT ALSO PASS DOHA

BEIRUT ALSO PASS BAGHDAD

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E.O. 11652: GDS

TAGS: ENRG, TC

SUBJECT: CURRENT ABU DHABI OIL MARKETING SCENE

1. DURING CALL BY AMBASSADOR ON MINPET OTAIBA OCT. 22 HE PROVIDED FOLLOWING INFORMATION ON ABU DHABI'S PRESENT OIL MARKETING SITUATION.

2. AGREEMENT FOR 40-40-20 SPLIT FOR FOURTH QUARTER OIL AT THEORETICAL PRODUCTION LEVEL OF 1.3 MBD FOR ADPC AND ADMA LEFT ADNOC WITH 260,000 BBL/DAY TO MARKET ON ITS OWN. 100,000 BBL/DAY IS BEING LIFTED UNDER EXISTING CONTRACTS AND IN ADDITION ABU DHABI HAS JUST SIGNED AGREEMENT WITH PETROBRAS FOR 20,000 BBL/DAY OF UMM SHAIF OIL (WHICH OTAIBA SAID WAS CHEAPEST OIL ABU DHABI HAS) AT 93 PERCENT OF POSTED PRICE. THIS LEFT 140,000 BBL/DAY WHICH ADNOC IS NOT MOVING. (BOTH ADPC AND ADMA ARE PRESENTLY WELL BELOW 1.3 MBD PRODUCTION LEVEL AS RESULT OF ADNOC'S INABILITY TO SELL ITS FULL 20 PERCENT OF PRODUCTION.)

3. OTAIBA SAID THAT ABU DHABI IS HAVING GREAT DIFFICULTY FINDING BUYERS FOR OIL AT 93 PERCENT OF POSTED PRICE. HE BELIEVED ABU DHABI OIL IS OVERPRICED, PARTICULARLY BECAUSE OF SULPHUR CONTENT DIFFERENTIAL WHICH WAS UNREALISTICALLY HIGH FOR TODAY'S MARKET. OTAIBA SAID DEMAND FOR QUALITY OIL IS LOW THESE DAYS. HE SAID MINPET IS ACCORDINGLY STUDYING POSSIBILITY OF REDUCING THEKK SULPHUR DIFFERENTIAL WHICH NOW RUNS ABOUT 70 CENTS FOR ABU DHABI'S MOST EXPENSIVE OIL. HE THOUGHT THIS WOULD MOVE MORE OF ADNOC'S OIL, AND HE ALSO COMMENTED THAT SUCH ACTION SHOULD BE ONE THAT WOULD NOT BE CRITICIZED BY OPEC MEMBERS.

4. I ASKED ABOUT ITEM IN LATEST PIW REPORTING THAT ABU DHABI HAD EXPRESSED WILLINGNESS TO ALLOW ADPC AND ADMA TO BUY BACK ANY UNMARKETED ADNOC OIL AT PRICE HALFWAY BETWEEN 93 PERCENT OF POSTED PRICE AND TAX-PAID COST OF EQUITY OIL. OTAIBA SAID THERE WAS NO TRUTH IN THIS REPORT. HE HAD JUST SENT TELEGRAM TO PIW SAYING REPORT WAS GROUNDLESS. OTAIBA SAID THIS WOULD BE GIVING CONCESSION COMPANIES TOO MUCH OF A BREAK.

5. COMMENT: ABU DHABI PRODUCTION IS NOW RUNNING AT ONLY ABOUT 1.15 MBD. SHARP DROP AGAINST 1.635 MBD THIS SPRING AND
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SUMMER, AND EVEN SHARPER DROP AGAINST 1.9 MBD WHICH WAS PROJECTED EARLIER IN YEAR. OTAIBA'S COMMENT ABOUT A.D. OIL BEING "OVERPRICED" MAY REFLECT NERVOUSNESS ON HIS (NOT SHAIKH ZAYID'S) PART THAT INCOME IS DROPPING OFF BELOW DESIRED LEVELS AT CURRENT PRODUCTION. IT MAY ALSO REFLECT HIS AWARENESS THAT OTHER PRODUCERS SUCH AS ALGERIA ARE BEGINNING TO ADJUST THEIR PRICES DOWNWARD TO MAINTAIN SALES. HOWEVER OTAIBA INTENDS TO DRESS IT UP IN TERMS OF "UNREALISTIC" DIFFERENTIAL FOR QUALITY OIL, SHORT AND SIMPLE OF

IT IS THAT HE IS TOYING WITH IDEA OF REDUCING PRICE OF ABU DHABI OIL. WITH "NINETY-THREE PERCENT OF POSTED" NOW ENSHRINED AS SUPPOSEDLY INVIOABLE OPEC PRINCIPLE IN THESE PARTS, IT IS BECOMING EASIER TO FIDDLE WITH POSTED PRICE. WE IMAGINE, HOWEVER, THAT OTAIBA WILL NOT MAKE DECISION UNTIL HE CAN TEST THE ATMOSPHERE ON OIL POLICY AT RABAT (OTAIBA IS ACCOMPANYING SHAIKH ZAYID TO SUMMIT). THERE HE WILL RUN INTO SAUDI IDEA OF LOWERING POSTED PRICE BUT AT SAME TIME RAISING ROYALTIES AND TAXES SO THAT GOVERNMENT TAKE CAN REMAIN CONSTANT. OTAIBA WAS COOL TO THIS IDEA YESTERDAY (SEPTEL) BUT HE MAY COME BACK FROM RABAT FEELING THAT ANY CONTEMPLATED ADJUSTMENT IN POSTED PRICE MUST BE ACCOMPLISHED BY ANOTHER SQUEEZE ON OWNING COMPANIES HERE, WHICH WOULD MOST LIKELY TAKE FORM OF PRESSURING COMPANIES TO INCREASE BUY-BACK QUANTITY AT 93 PERCENT OF POSTING. YESTERDAY HE TOLD ME RATHER DISARMINGLY, HOWEVER, THAT HE HAD PUT "GREAT DEAL OF PRESSURE" ON COMPANIES TO BUY BACK MORE THAN 40 PERCENT OF PRODUCTION AT 93 PERCENT OF POSTING DURING LAST ROUND OF NEGOTIATIONS, BUT COMPANIES WOULDN'T GO ANY FURTHER.

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